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Report Highlights:

Colombian coffee production will increase to 12.4 million bags in 2007/08 but fall by 200,000 bags next year. Exports remain high at 11.6 million bags in 2007/08 and will fall by 50,000 bags in 2008/09. In spite of high international coffee prices, coffee farmer's income is eroded by the peso appreciation and higher production costs.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Bogota [CO1]
[CO]

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Executive Summary

In 2007/08, Colombian coffee production is expected to reach 12.4 million bags up 1.9 percent above a year ago, but forecast to fall to 12.2 million bags in 2008/09, which may be larger if adverse weather conditions affect tree blooming. The peso appreciation continues to negatively affect farmer's incomes although international coffee prices remain high. The peso has appreciated by 10.8 percent during the first quarter of 2008.

Colombian coffee exports are expected to increase by 3.2 percent to 11.6 million bags in 2007/08, but 2008/09 to 11.55 million bags. Coffee trade policy is focused to increase exports of coffee value added products. FEDECAFE expanded 50 percent the production of freeze dried coffee that will go to external markets. Colombia imported 400,000 bags mainly to supply production for local consumption. Consumption remains constant at 1.2 million bags.

Production

In 2007/08, Colombian coffee production is expected to reach 12.4 million bags up 1.9 percent above a year before. A strong increase in production, 17 percent, during the first half of the marketing year (October-March), will sustain the year-to-year production increase, which will be partially offset by lower production during the second half (April-September) of the year. The reason for this trend was strong rainfall period that affected tree flowering. Weather conditions and increased production costs will also affect coffee crop quality. Changing in weather conditions mainly rainfall intensity and length is delaying flowering and also harvest periods. Colombian coffee production is forecasted to reduce to 12.2 million bags in 2008/09 year that may fall deeper if strong weather affects tree blooming.

The rising strength of the peso continues to play against coffee farmers' income, although international prices have hovered around what normally is considered a high price. The Colombian peso has appreciated 10.8 percent year-to-date in 2008, after appreciating 10.9 in 2007. The increase in production costs due to high prices of fertilizers has also eroded farmers' income.

The Colombian Ministry of Agriculture increased the Government Direct Support (AGC) trigger price three times to secure a higher minimum price paid to coffee growers that could compensate somehow the income lost due to increased farm costs and the peso appreciation. Even though, the AGC has not been used due to high international prices, they have been higher than the increased trigger price. The Colombian Government to make effective the support then authorized these funds, \$ 22.5 millions, to be used for the coffee renovation program.

FEDECAFE created the National Guarantee Fund to act as collateral for coffee grower loans received from the National Financial Agrarian Fund, which will help small farmers to receive credit lines at preferential interest rates.

FEDECAFE launched the second tree-renovation program with government support to renovate 300,000 hectares over 5 years. According to the Coffee Growers Federation, this program will help farmers increase coffee productivity and is expected to increase total coffee production to 15 million bags by 2015.

FEDECAFE expanded its freeze-dried coffee production plant capacity to produce 11.5 million tons of dried coffee to cover increased demand in the international markets with its coffee brand "Café Buendía" that includes organic, flavored, decaffeinated and regular coffees.

Consumption

Colombian local coffee consumption is almost stagnant at 1.2 million bags and does not follow the dynamism of coffee production. The National Coffee Growers Federation is committed to promoting local consumption and increasing per-capita coffee consumption, which is around 2 kg per person/year, far below per-capita consumption in Brazil and other regional countries.

Trade

Colombia exports 90 percent of its coffee production and, thus, production increases mean increased exports. Colombian coffee exports are expected to increase by 3.2 percent to 11.60 million bags in 2007/08. Projections for 2008/09 are slightly down to 11.55 million bags, virtually unchanged but a shift from annual increase over the past three years. Colombia coffee trade policy and marketing centers around coffee differentiation and value-added product exports. Ninety-five percent of Fedecafe's dried-coffee production is exported and specialty coffee exports quadrupled since 2002. These specialty coffee exports have resulted in preferential price agreements for 1.3 million bags of value-added green coffee negotiated in 2007.

The United States imported 36 percent of total Colombian coffee exports and continues to be the single largest market for Colombian coffee. Colombia exported to the United States 4.0 million bags in 2006/07. Germany and Japan were the second and third largest markets for Colombian coffee exports amounting to 1.4 million bags and 1.3 million bags respectively, representing together 25 percent of exports. Independent exporters were aggressive and increased export share to 78.8 percent in 2006/07 from 70.6 percent a year earlier.

According to FEDECAFE the average international indicative price for Colombian coffee was \$1.44 per pound during the first half of MY 2007/08. This price is 17 percent higher than a year before. FEDECAFE is committed to promoting greater differentiation of high-quality coffee to sustain better prices for Colombian producers. International prices paid for Colombian coffee have remained above \$1.00 per pound since December 2004.

Colombia imported 400,000 bags of coffee to supply local industry needs for local consumption. The main supplier was Ecuador followed by Peru. Together they accounted for 99 percent of the total market.

Stocks

Colombia stock/inventory averaged 1.3 million bags in 2006/07, which represented 42 days of exports. Colombia is forecast to will reduce its stocks to 40 days of exports given the rising costs of storage and high international prices reducing incentives to hold inventories.

Policy**International Coffee Organization ICO**

FEDECAFE considers expanding ICO's membership to consumer and producer countries a key marketing policy to assure sustainability in the world coffee sector and particularly to strengthen Colombian's coffee position in the world market making it more competitive. ICO policies to enhance coffee quality differentiation and promote coffee consumption are benefiting coffee trade. FEDECAFE actively worked in defining a new ICO agreement that replaced the 2001 agreement.

Support

The Colombian government has maintained a minimum price support program for coffee growers that increased three times in 2007 from 330,000 pesos (\$184.60) to 420,000 pesos (\$234.90) per 125 kg bag to secure growers' incomes in the event of price reduction.

International prices have remained high since 2004 and Colombian coffee prices paid to growers have been above the minimum trigger price and thus the program has not been used. However, the peso appreciation and increasing production costs have dramatically eroded growers' income, allowing Ministry of Agriculture approve FEDECAFE using the resources to pay coffee farmers in the form of fertilizers.

The Ministry of Agriculture launched the second coffee tree-renovation program targeting the renovation of 300,000 hectares. The government financial institution will provide farmers credit up to 4.5 million Colombian pesos, \$2,520 per hectare to renew coffee trees. The Government will forgive 40 percent of the principal and FEDECAFE will pay the interest. In order for the small coffee farmer to be able to receive the credit with the benefits, FEDECAFE created the Coffee National Guarantee Fund that will serve as collateral for farmers' loans.

U.S. – Colombia Free Trade Agreement

The free trade agreement (CTPA) signed in late November, 2006 between the United States and Colombia is pending ratification in the U.S. congress. The CTPA will provide Colombian exports an immediate reduction of duties on coffee substitutes and preparations, essences, extracts or concentrates with a basis of coffee. Some of these products will be assigned TRQs, such as sugar-containing products with coffee flavor.

The CTPA will give U.S. exports a five-year phase-out period for extracts or concentrates and its preparations with a basis of coffee, and ten years for products containing sugar with coffee flavor.

Tables

| Coffee, Green Colombia | 2007 | | | 2008 | | | 2009 | | |
|---------------------------|--------------------------------|-------|-------------|--------------------------------|-------|-------------|--------------------------------|---|-------------------|
| | 2006/2007 | | | 2007/2008 | | | 2008/2009 | | |
| | Market Year Begin: Oct 2006 | | | Market Year Begin: Oct 2007 | | | Market Year Begin: Oct 2008 | | |
| | Annual Data Displayed | | New Post | Annual Data Displayed | | New Post | Annual Data Displayed | | Feb |
| | | | Data | | | Data | | | Data |
| Area Planted | 780 | 780 | | 780 | 780 | | 780 | | (1000 HA) |
| Area Harvested | 640 | 640 | | 640 | 640 | | 640 | | (1000 HA) |
| Bearing Trees | 2900 | 2900 | | 2900 | 2900 | | 2900 | | (MILLION TREES) |
| Non-Bearing Trees | 1070 | 1070 | | 1070 | 1070 | | 1070 | | (MILLION TREES) |
| Total Tree Population | 3970 | 3970 | 0 | 3970 | 3970 | 0 | 3970 | 0 | (MILLION TREES) |
| Beginning Stocks | 1215 | 1215 | 1215 | 1302 | 1302 | 0 | 1252 | 0 | (1000 60 KG BAGS) |
| Arabica Production | 12164 | 12164 | | 12400 | 12400 | | 12200 | | (1000 60 KG BAGS) |
| Robusta Production | 0 | 0 | | 0 | 0 | | 0 | | (1000 60 KG BAGS) |
| Other Production | 0 | 0 | | 0 | 0 | | 0 | | (1000 60 KG BAGS) |
| Total Production | 12164 | 12164 | 0 | 12400 | 12400 | 0 | 12200 | 0 | (1000 60 KG BAGS) |
| Bean Imports | 0 | 0 | | 0 | 0 | | 0 | | (1000 60 KG BAGS) |
| Roast & Ground Imports | 400 | 400 | | 400 | 400 | | 500 | | (1000 60 KG BAGS) |
| Soluble Imports | 0 | 0 | | 0 | 0 | | 0 | | (1000 60 KG BAGS) |
| Total Imports | 400 | 400 | 0 | 400 | 400 | 0 | 500 | 0 | (1000 60 KG BAGS) |
| Total Supply | 13779 | 13779 | 1215 | 14102 | 14102 | 0 | 13952 | 0 | (1000 60 KG BAGS) |
| Bean Exports | 10507 | 10507 | | 10770 | 10770 | | 10650 | | (1000 60 KG BAGS) |
| Rst-Grnd Exp. | 100 | 100 | | 100 | 100 | | 100 | | (1000 60 KG BAGS) |
| Soluble Exports | 630 | 630 | | 800 | 800 | | 800 | | (1000 60 KG BAGS) |
| Total Exports | 11237 | 11237 | 0 | 11670 | 11670 | 0 | 11550 | 0 | (1000 60 KG BAGS) |
| Rst,Ground Dom. Consum | 950 | 950 | | 950 | 950 | | 950 | | (1000 60 KG BAGS) |
| Soluble Dom. Cons. | 290 | 290 | | 300 | 300 | | 300 | | (1000 60 KG BAGS) |
| Domestic Use | 1240 | 1240 | 0 | 1250 | 1250 | 0 | 1250 | 0 | (1000 60 KG BAGS) |
| Ending Stocks | 1302 | 1302 | | 1182 | 1182 | | 1152 | | (1000 60 KG BAGS) |
| Total Distribution | 13779 | 13779 | 0 | 14102 | 14102 | 0 | 13952 | 0 | (1000 60 KG BAGS) |

| Export Trade Matrix | | | |
|----------------------------|---------|--------|--------------------------|
| Colombia | | | |
| Coffee, Green | | | |
| Time Period | Oct/Sep | Units: | 60 kg Bags (0,000) |
| Exports for: | 2006 | | 2007 |
| U.S. | 3793 | U.S. | 3968 |
| Others | | Others | |
| Germany | 1472 | | 1436 |
| Japan | 1495 | | 1313 |
| Belgium | 546 | | 779 |
| Canada | 602 | | 563 |
| United Kingdom | 441 | | 448 |
| Italy | 386 | | 407 |
| Sweden | 267 | | 315 |
| Spain | 275 | | 290 |
| Finland | 203 | | 228 |
| Netherlands | 209 | | 225 |
| Total for Others | 5896 | | 6004 |
| Others not Listed | 1063 | | 1265 |
| Grand Total | 10752 | | 11237 |
| | | | |

Source: World Trade Atlas.

| Prices Table | | | |
|----------------------|------------|-----------------|------------|
| Colombia | | | |
| Coffee, Green | | | |
| Prices in | Pesos | per uom | 125 kg bag |
| | | | |
| Year | 2007 | 2008 | % Change |
| Jan | 477,403.00 | 501,520.00 | 5% |
| Feb | 471,286.00 | 544,293.00 | 15% |
| Mar | 440,411.00 | 500,500.00 | 14% |
| Apr | 424,708.00 | | -100% |
| May | 407,040.00 | | -100% |
| Jun | 425,163.00 | | -100% |
| Jul | 417,871.00 | | -100% |
| Aug | 450,157.00 | | -100% |
| Sep | 483,229.00 | | -100% |
| Oct | 496,407.00 | | -100% |
| Nov | 489,550.00 | | -100% |
| Dec | 505,613.00 | | -100% |
| | | | |
| Exchange Rate | 1,780.01 | Col pesos/US \$ | |
| Date of Quote | 5/14/2008 | | |

Source: FEDECAFE